

Message Text

CONFIDENTIAL

PAGE 01 VIENTI 00581 01 OF 02 080729Z

15

ACTION EA-09

INFO OCT-01 EUR-12 NEA-10 ISO-00 CIAE-00 DODE-00 PM-04

H-02 INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02

SS-15 USIA-06 AID-05 COME-00 EB-07 FRB-03 TRSE-00

XMB-02 OPIC-03 CIEP-01 LAB-04 SIL-01 OMB-01 IGA-02

STR-04 CEA-01 ABF-01 FS-01 /114 W
----- 038761

R 080550Z MAR 76

FM AMEMBASSY VIENTIANE

TO SECSTATE WASHDC 6180

INFO AMEMBASSY BANGKOK

AMEMBASSY CANBERRA

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY TOKYO

AMEMBASSY JIDDA

CINCPAC

C O N F I D E N T I A L SECTION 1 OF 2 VIENTIANE 0581

CINCPAC FOR POLAD

DEPT ALSO PASS AID

E.O. 11652: GDS

TAGS: EAID, EFIN, LA

SUBJECT: FEOF: ISSUES CONCERNING TERMINATION

REF: A. STATE 052769 (040321Z MAR 76), B. VIENTIANE 0525
(020225Z MAR 76), C. VIENTIANE 0489 (260217Z FEB 76),
D. VIENTIANE 0366 (120550Z FEB 76), E. STATE 032861
(102327Z FEB 76), F. VIENTIANE 0321 (070425Z FEB 76)

SUMMARY. FEOF LOCAL DONOR REPS AND LAO REP HAVE AGREED TO
WAIT FOR EXHAUSTION OF REMAINING DOLLAR FUNDS TO TERMINATE
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 VIENTI 00581 01 OF 02 080729Z

FEOF. BECAUSE OF ADMINISTRATIVE SLOWNESS AND UNPREDICTABLE RATE

OF ARRIVAL OF IMPORTS, EXHAUSTION OF DOLLAR FUNDS MAY NOT OCCUR UNTIL AFTER MARCH 31. EMBASSY STRONGLY RECOMMENDS THAT DEPARTMENT AND AID AGREE TO TURN OVER KIP BALANCE ATTRIBUTABLE TO US CONTRIBUTIONS TO LAO TREASURY. AS POLICY MATTER, TO TRY TO LAY CLAIM TO THESE KIP WOULD CREATE ANOTHER SERIOUS PROBLEM IN OUR DEALINGS WITH LAOS AND PUT FURTHER STRAIN ON DELICATE FRAMEWORK OF US-LAO RELATIONS. AS PRACTICAL MATTER, WE ARE CONVINCED LAO GOVERNMENT WILL NOT ALLOW US TO USE THESE KIP TO MEET EMBASSY LOCAL EXPENSES (SUGGESTED REF A). AND AS LEGAL MATTER, WE CAN FIND NO BASIS IN FEOF AGREEMENTS FOR US CLAIM TO WITHDRAW AND USE THESE KIP. EMBASSY ALSO URGES DEPARTMENT AND AID CONCURRENCE TO REVISION (ON PAPER) OF DOLLARS IN PROFIT AND LOSS ACCOUNT TO FEOF DOLLAR OPERATING FUND UPON DEPARTURE OF FEOF MANAGER HUNT, A PROCEDURE HUNT PROPOSES. PROFIT AND LOSS ACCOUNT IS NOW SEPARATE FROM MAIN OPERATING FUND ONLY ON FEOF BOOKS. ALL MONEY IS ACTUALLY HELD IN SAME ACCOUNT IN BANQUE DE L'INDOCHINE, SINGAPORE. PROFIT AND LOSS ACCOUNT WAS ADMINISTRATIVELY CREATED; MONEY IN IT CANNOT BE TRACED TO IDENTIFIABLE DONOR CONTRIBUTIONS. NEITHER EXISTENCE OF PROFIT AND LOSS FUND NOR ITS SEPARATION FROM FEOF OPERATING FUND IS SPELLED OUT IN FEOF ACCORDS. DONOR REPS HAVE AGREED (SEE REF C, PARA 7) THAT DONORS SHOULD TAKE COMMON POSITION ON DISPOSITION OF THIS FUND BUT THAT EACH DONOR COUNTRY SHOULD ADDRESS ISSUE OF DISPOSITION OF ITS KIP BALANCE SEPARATELY IN DONOR RESPONSES TO LAO GOVERNMENT NOTE (SEE REF B). END SUMMARY.

1. FEOF TERMINATION PROCEDURES. DEPARTMENT AND AID ARE CORRECT IN SUPPOSING (REF A) THAT FEOF WILL BE TERMINATED BY EXHAUSTION OF FUND RATHER THAN BY AGREEMENT AMONG PARTICIPANTS. THIS PROCEDURE WAS UNANIMOUSLY AGREED UPON AT FEBRUARY 24 DONOR ADVISORY BOARD (DAB) MEETING (SEE REF C). LAO REPRESENTATIVE BOUNSOUANE THAVONEKHAM'S CIRCULAR LETTER (REF B) WAS SOMEWHAT CONFUSING IN THIS REGARD AS IN IT LAO GOVERNMENT ASKED THAT "REMAINDER OF ASSETS IN FOREIGN EXCHANGE OF FEOF" BE DEPOSITED TO ACCOUNT OF GOVERNMENT OF LPDR BEFORE DEPARTURE OF MANAGING DIRECTOR HUNT. BOUNSOUANE HAS SUBSEQUENTLY CONFIRMED TO US AND TO AUSTRALIAN AND JAPANESE DAB REPS THAT LAO GOVERNMENT HAS NO OBJECTION TO WAITING FOR EXHAUSTION OF DOLLAR FUNDS IN FEOF TO TERMINATE FEOF. BOUNSOUANE SEES NO PROBLEM WITH LAO GOVERNMENT'S APPOINTING LAO OFFICIAL

CONFIDENTIAL

PAGE 03 VIENTI 00581 01 OF 02 080729Z

TO FILL HUNT'S POSITION UNTIL REMAINING FUNDS ARE EXHAUSTED IF THERE IS FOREIGN EXCHANGE LEFT IN FUND ON MARCH 31. DONOR DAB REPS HAVE CONCURRED IN THIS PROCEDURE.

2. TIMING OF TERMINATION. FEOF MANAGER HUNT STATES THAT FEOF DOLLAR FUNDS MAY NOT BE EXHAUSTED BY MARCH 31 AFTER ALL, BECAUSE OF SLOWDOWN IN LAO ADMINISTRATIVE PROCEDURES AND UNPREDICTABILITY OF ACTUAL ARRIVAL OF IMPORTS. AS OF MARCH 5,

842,000 DOLLARS U.S. REMAINED IN FEOF OPERATING FUND (NOT COUNTING SOME 160,000 DOLLARS US IN PROFIT AND LOSS ACCOUNT). HUNT BELIEVES FURTHER 013,000 DOLLARS US WILL BE DISBURSED WEEK OF MARCH 8. HUNT ASSURED EMBOFF THAT FOREIGN EXCHANGE AUTHORIZING COMMISSION (FEAC) ON WHICH HE SITS AS DONOR REPRESENTATIVE HAS ACTUALLY APPROVED IMPORTATION IN EXCESS OF AMOUNT REMAINING IN FEOF DOLLAR FUND. HOWEVER, MANY OF THESE IMPORTS HAVE NOT YET ARRIVED SO THAT FINAL PAYMENT HAS NOT BEEN MADE TO IMPORTERS. ALSO, HUNT NOTED THAT CURRENT POLITICAL CAMPAIGN WAS SLOWING ALL BANKING PROCEDURES IN LAOS. HUNT TOLD EMBOFF THAT 85 OFFICIALS OF NATIONAL BANK OF LAOS (OUT OF TOTAL STAFF OF SOME 300) HAVE BEEN SENT TO COUNTRYSIDE TO CONDUCT POLITICAL SEMINARS.

3. DISPOSITION OF KIP BALANCE.

A. PRACTICAL AND POLICY CONSIDERATIONS. LAO GOVERNMENT HAS ALREADY ASKED THAT THE PORTION OF REMAINING "COUNTERPART KIP" GENERATED BY U.S. CONTRIBUTIONS TO FEOF BE TURNED OVER TO LAO TREASURY (SEE REF B). WE DO NOT REPEAT NOT BELIEVE THAT LAO GOVERNMENT WOULD AGREE TO ANY OTHER DISPOSITION OF THESE KIP, AS PRACTICAL MATTER. MORE IMPORTANT CONSIDERATION IS THAT WE ARE CONVINCED THAT OUR ATTEMPTING TO ASSERT CLAIM TO ANY OF THESE FUNDS AT THIS LATE DATE FOR USE BY EMBASSY FOR ITS LOCAL EXPENSES WOULD ADD ANOTHER SERIOUS PROBLEM TO LIST OF PROBLEMS TROUBLING US-LAO RELATIONS AND WOULD FURTHER STRAIN FREAMEWORK OF THOSE RELATIONS.

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 VIENTI 00581 02 OF 02 080802Z

17

ACTION EA-09

INFO OCT-01 EUR-12 NEA-10 ISO-00 FS-01 CIAE-00 DODE-00

PM-04 H-02 INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01

SP-02 SS-15 USIA-06 AID-05 COME-00 EB-07 FRB-03

TRSE-00 XMB-02 OPIC-03 CIEP-01 LAB-04 SIL-01 OMB-01

IGA-02 STR-04 CEA-01 ABF-01 /114 W

----- 038943

R 080550Z MAR 76

FM AMEMBASSY VIENTIANE

TO SECSTATE WASHDC 6181
INFO AMEMBASSY BANGKOK
AMEMBASSY CANBERRA
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY TOKYO
AMEMBASSY JIDDA
CINCPAC

C O N F I D E N T I A L SECTION 2 OF 2 VIENTIANE 0581

CINCPAC FOR POLAD

DEPT ALSO PASS AID

B. LEGAL CONSIDERATIONS. FINALLY, FROM DEPARTMENT'S OWN RESEARCHES (REF A) AND OUR STUDY OF MATTER HERE, IT DOES NOT APPEAR TO US THAT USG HAS LEGAL CLAIM ON ANY "COUNTERPART KIP" BALANCE. NEITHER FEOF MANAGER HUNT NOR EMBASSY HAS COPIES OF FEOF AGREEMENTS FOR 1964 THROUGH 1973. HOWEVER, ACCORDING TO REF A, FEOF AGREEMENTS FOR YEARS 1967 THROUGH 1971 MADE NO REPEAT NO PROVISION FOR U.S. WITHDRAWL OF FEOF KIP. SAME REF NOTES THAT AGREEMENTS FOR 1972 AND 1973 PROVIDE FOR WITHDRAWAL BY US OF UP TO 30 PERCENT OF KIP COUNTERPART OF U.S. CONTRIBUTION FOR PROJECT SUPPORT AND SIMILAR PURPOSES. FEOF MANAGER HUNT HAS ACCOUNT BOOKS WHICH SHOW THAT US DID INDEED WITHDRAW SOME CONFIDENTIAL

CONFIDENTIAL

PAGE 02 VIENTI 00581 02 OF 02 080802Z

9.5 BILLION KIP DURING THAT PERIOD. HIS BOOKS DO NOT SHOW FOR WHAT PURPOSES THESE KIP WERE WITHDRAWN, BUT HE IS REASONABLY CERTAIN THAT KIP TO WHICH USG ENTITLED FOR THIS PERIOD WERE FULLY WITHDRAWN AND UTILIZED. AS FURTHER CONFIRMATION OF THIS, HUNT'S RECORDS SHOW THAT IN MARCH, 1975, USAID MADE ARRANGEMENTS TO TRANSFER BALANCE OF ACCUMULATED KIP FROM 1971-1974 PERIOD TO LAO TREASURY AND THAT US ACTUALLY TRANSFERRED 29,004,850,000 KIP TO LAO TREASURY ON APRIL 10, 1975. FEOF AGREEMENT FOR 1974 STATES THAT KIP GENERATED BY U.S. CONTRIBUTION TO FUND SHALL AT REQUEST OF LAO GOVERNMENT BE PAID TO NATIONAL BANK OF LAOS FOR RETIREMENT OF LAO GOVERNMENT DEBT. FEOF AGREEMENT FOR 1975, IN REFERRING TO KIP GENERATED BY US CONTRIBUTION FOR THAT YEAR, STATES SIMPLY "NONE SHALL BE WITHDRAWN." WE CANNOT FIND ANY EVIDENCE THAT US EVER WROTE INTO ANY FEOF AGREEMENT PROVISION FOR USING COUNTERPART KIP TO MEET EMBASSY LOCAL EXPENSES.

C. FEOF MANAGER'S CALCULATIONS AND ORIGIN OF PRE-1975 U.S. KIP BALANCE. FEOF MANAGER HUNT REPEATED TO EMBOFF MARCH 5 SUBSTANCE OF WHAT HE HAD TOLD POLITICAL COUNSELOR TEARE ABOUT HIS CALCULATIONS OF PRE-1975 KIP BALANCES (SEE REF D, PARA 2). FRENCH KIP BALANCE HAS ALWAYS BEEN KEPT SEPARATELY. THEREFORE

HUNT ONLY HAD TO SEPARATE OUT KIP BALANCES TO BE ATTRIBUTED TO OTHER FOUR DONOR COUNTRIES. HE USED EXCHANGE RATES PREVAILING ON DATES OF DEPOSITS TO CALCULATE KIP GENERATED BY AUSTRALIA, JAPAN AND U.K. SIMPLY BECAUSE THIS PROCEDURE HAS BEEN USED ALL ALONG TO CALCULATE FRENCH BALANCES AND BECAUSE HUNT'S ACCOUNT BOOKS FOR EARLIER PERIOD DID NOT PERMIT HIM TO MAKE MORE REFINED CALCULATION. HUNT SUBTRACTED FIGURES HE ARRIVED AT FOR COUNTERPART KIP FOR AUSTRALIA, JAPAN AND U.K., FROM ACTUAL KIP BALANCE ON HAND FOR PRE-1975 CONTRIBUTIONS . HE THEN CONSIDERED THE REMAINDER (1.179 BILLION KIP) TO BE ATTRIBUTABLE TO U.S. CONTRIBUTIONS. HUNT STRESSED THAT HE HAD NOT REPEAT NOT MEANT TO IMPLY THAT USG HAD ANY CLAIM TO WITHDRAW OR USE THESE KIP. ON CONTRARY, HUNT STATES THAT ACCORDING TO HIS UNDERSTANDING OF FEOF AGREEMENTS, THESE US-GENERATED KIP SHOULD HAVE BEEN TURNED OVER TO LAO TREASURY LONG AGO. HE ATTRIBUTES FACT THAT THIS WAS NOT DONE TO ERRORS IN CALCULATION OF KIP GENERATED BY DOLLAR CONTRIBUTIONS AND TO ADMINISTRATIVE ANOMALIES, ESPECIALLY IN 1965-1971 PERIOD. HUNT SAYS THAT IN LATE 1974 HE BROUGHT TO ATTENTION OF USAID/EAD

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 VIENTI 00581 02 OF 02 080802Z

OFFICERS DEAN AND STETTNER FACT THAT THERE WERE UNEXPLAINED KIP BALANCES DATING BACK TO 1965-1971 PERIOD. HUNT TOLD EMBOFF THAT DEAN AND STETTNER AGREED THAT US PORTION OF THESE KIP BALANCES SHOULD BE IDENTIFIED AND TURNED OVER TO LAO, BUT THAT WORK OF IDENTIFICATION OF US PORTION OF KIP BALANCES WAS NEVER UNDERTAKEN.

4. PROFIT AND LOSS ACCOUNT. ACCORDING TO HUNT'S CALCULATIONS, AFTER PAYMENT OF ALL ADMINISTRATIVE COSTS OF FEOF THROUGH MARCH 31, PROFIT AND LOSS ACCOUNT WILL SHOW BALANCE OF 160,000 DOLLARS US. THIS MONEY IS ACTUALLY KEPT TOGETHER WITH FEOF DOLLAR OPERATING FUND IN ONE ACCOUNT IN BANQUE DE L'INDOCHINE, SINGAPORE. IT IS SEPARATE ONLY ON PAPER, IN FEOF RECORD BOOKS. HUNT PROPOSES THAT THIS AMOUNT BE TRANSFERRED ON PAPER IN FEOF RECORDS TO REGULAR FEOF OPERATING ACCOUNT AT END OF MARCH. THIS MONEY WOULD THEN BE DRAWN DOWN NORMALLY WITH REST OF OPERATING FUND UNTIL FUND EXHAUSTED. AS HUNT EXPLAINS IT, PROFIT AND LOSS ACCOUNT WAS ADMINISTRATIVELY CREATED IN 1972 AND IS NOT REFERRED TO IN FEOF AGREEMENTS. PRIOR TO 1972, ADMINISTRATIVE COSTS OF FEOF IN FOREIGN EXCHANGE WERE MET DIRECTLY OUT OF DONORS' CONTRIBUTIONS HOWEVER, SINCE 1972 FEOF MANAGER HAS PUT PORTIONS OF FOREIGN EXCHANGE IN FUND WHICH WERE NOT IMMEDIATELY NEEDED BY LAO INTO BANK TO EARN INTEREST. ACCUMULATED INTEREST WAS RECORDED SEPARATELY ON FEOF BOOKS AS PROFIT AND LOSS ACCOUNT AND WAS USED TO PAY ADMINISTRATIVE COSTS OF FEOF. HUNT EMPHASIZED THAT PROFIT AND LOSS ACCOUNT NOT TIED TO SPECIFIC DONOR CONTRIBUTIONS AND THAT THIS ACCOUNT WAS ONLY NOTIONALLY SEPARATE FROM FEOF OPERATING FUND. BOTH HE AND LAO FINANCE MINISTRY OFFICIAL BOUNSOUANE HAD CONFIRMED THAT LAO EXPECT

THIS MONEY WILL REVERT TO MAIN BODY OF FUND WHEN HUNT LEAVES LAOS. WE HOPE THAT DEPARTMENT AND AID WILL RAISE NO OBJECTION TO THIS REVERSION ON UNDERSTANDING THAT ANY ADMINISTRATIVE COSTS INCURRED BY FEOF AFTER MARCH 31 MUST BE MET BY LAO GOVERNMENT.

5. HUNT ALSO PROPOSED TRANSFERRING REMAINDER OF FEOF DOLLAR FUND, INCLUDING PROFIT AND LOSS ACCOUNT MONEY, TO ACCOUNT OF NATIONAL BANK OF LAOS IN FRENCH-AMERICAN BANKING CORPORATION IN NEW YORK BEFORE HE LEAVES LAOS AT END OF MARCH. HE POINTS OUT THIS IS ADMINISTRATIVE MATTER. AFTER HUNT'S DEPARTURE, LAO OFFICIAL WILL BE APPOINTED TO MANAGE FUND IF DOLLARS NOT ALREADY CONFIDENTIAL

CONFIDENTIAL

PAGE 04 VIENTI 00581 02 OF 02 080802Z

EXHAUSTED. LAO OFFICIALS HAVE INDICATED TO HUNT IT WILL BE EASIER FOR THEM TO WORK THROUGH FRENCH-AMERICAN BANKING CORPORATION, WHERE THEY ALREADY HAVE BUSINESS, THAN WITH BANQUE DE L'INDOCHINE IN SINGAPORE. CORCORAN

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, FINANCIAL CONTRIBUTIONS, BANK ACCOUNTS
Control Number: n/a
Copy: SINGLE
Draft Date: 08 MAR 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976VIENTI00581
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760086-1105
From: VIENTIANE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760382/aaaacusu.tel
Line Count: 300
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 76 STATE 52769, 76 VIENTIANE 525
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 19 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <19 APR 2004 by ElyME>; APPROVED <20 APR 2004 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FEOF: ISSUES CONCERNING TERMINATION
TAGS: EAID, EFIN, LA, US, FEOF
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006